FARM INDEX

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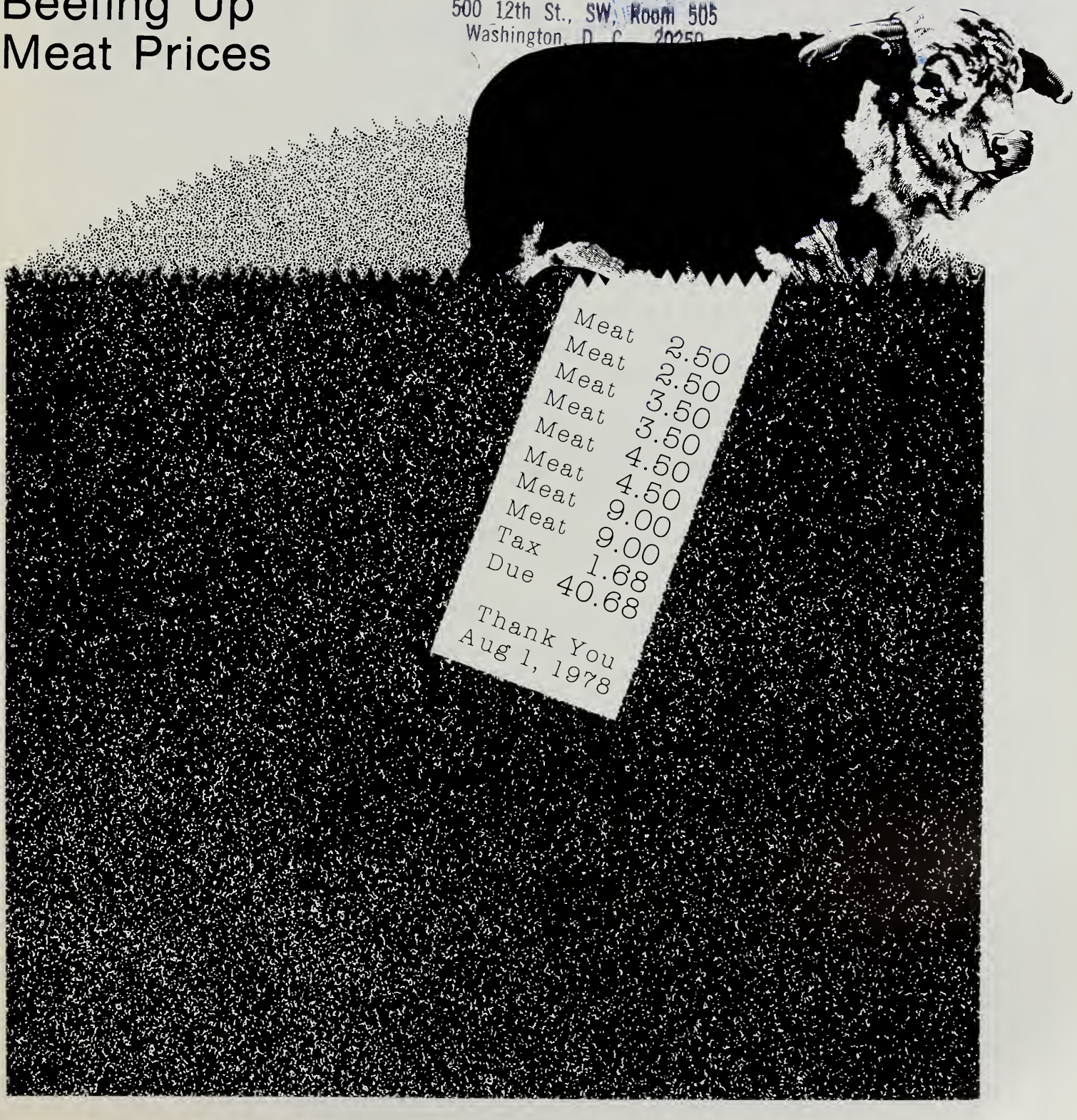
Beefing Up Meat Prices



Outlook

Crop supply and demand are on speaking terms for a change. Our July report on supply/demand prospects indicates a comfortable balance between production and use in 1978/79.

There are some caveats in that report, however. Economists caution that "early-season projections are subject to wide variability, depending on weather and growing conditions, as well as economic and policy developments . . ."

Here's a rundown for grains and soybeans:

A record for corn? Based on July 1 conditions, probably not. The first forecast for the 1978 corn crop put production at a little over 6 billion bushels, or 4 percent less than the 1977 high. On the other hand, during the past 10 years, the July 1 forecast underestimated the final outcome in 6 of those years, and overestimated it in 4 years.

The cold, wet spring of 1978 kept corn farmers out of the field longer than usual. However, moisture reserves plus warming temperatures also helped plant development. The harvest is still months away; weather in the critical month of August could upset the July forecast.

With corn the bellwether of feed grain production, the grand total for feed grains comes to around 192 million metric tons, off 5 percent from last year's record.

Prices looking better. Farmers can expect less downward pressure on feed grain prices than a year ago, when carryover stocks mounted for the third year in a row. Too, livestock feeding for 1978/79 should pick up a bit in view of the large crop.

Carryover stocks in 1979 should approximate this fall's level, assuming another strong showing for U.S. feed grain exports and steady expansion of livestock and poultry output in foreign markets.

Soybean exports hit new high. For 1977/78, they could reach 700 million bushels—20 million more than last year. Economists anticipate overseas demand will stay brisk for U.S. beans, despite a likelihood of rising output of high-protein meals and fats and oils.

The bullish performance for exports in recent months partly accounts for a downward revision in the carryover estimated for next September 1. It's now figured at 125 million bushels—just enough to see us through till October when the new crop comes in.

Based on planted acreage and yield expectations, the 1978 bean crop will range between 1.7 to 1.9 billion bushels, compared with 1.7 billion last year.

Wheat output loses momentum. For the first time in 3 years, U.S. wheat production won't top 2 billion bushels. ESCS says supplies will be slightly skimpier in the new marketing season, but prospective use will follow suit.

So, the 1978 crop—estimated at 1.8 billion bushels in July—will about balance out with demand, and year-end wheat stocks will hold near the level of the past 2 years.

All considered, U.S. wheat farmers will be getting better prices for the 1978 crop than the year before, maybe as much as 50 cents a bushel over last season's average of about $2.30.

Contents

Features

Departments

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Beefing Up Meat Prices

The time of record abundance of beef at relatively low prices is over for now, as beef production is declining and prices are rising.

Led by a reduction in beef supplies and a strong demand for meat, meat prices will pull the food price index up. This will probably continue during the next few years as beef herds are being rebuilt.

The beef cattle industry is at a critical point in the current cattle inventory cycle. Producers sustained heavy financial losses during most of the past 4 years, as their costs ran high while cattle prices were low.

These losses, combined with droughts in many areas, caused a large reduction in the cattle herd from 132 million head in 1975 to 116.3 million head on January 1, 1978.

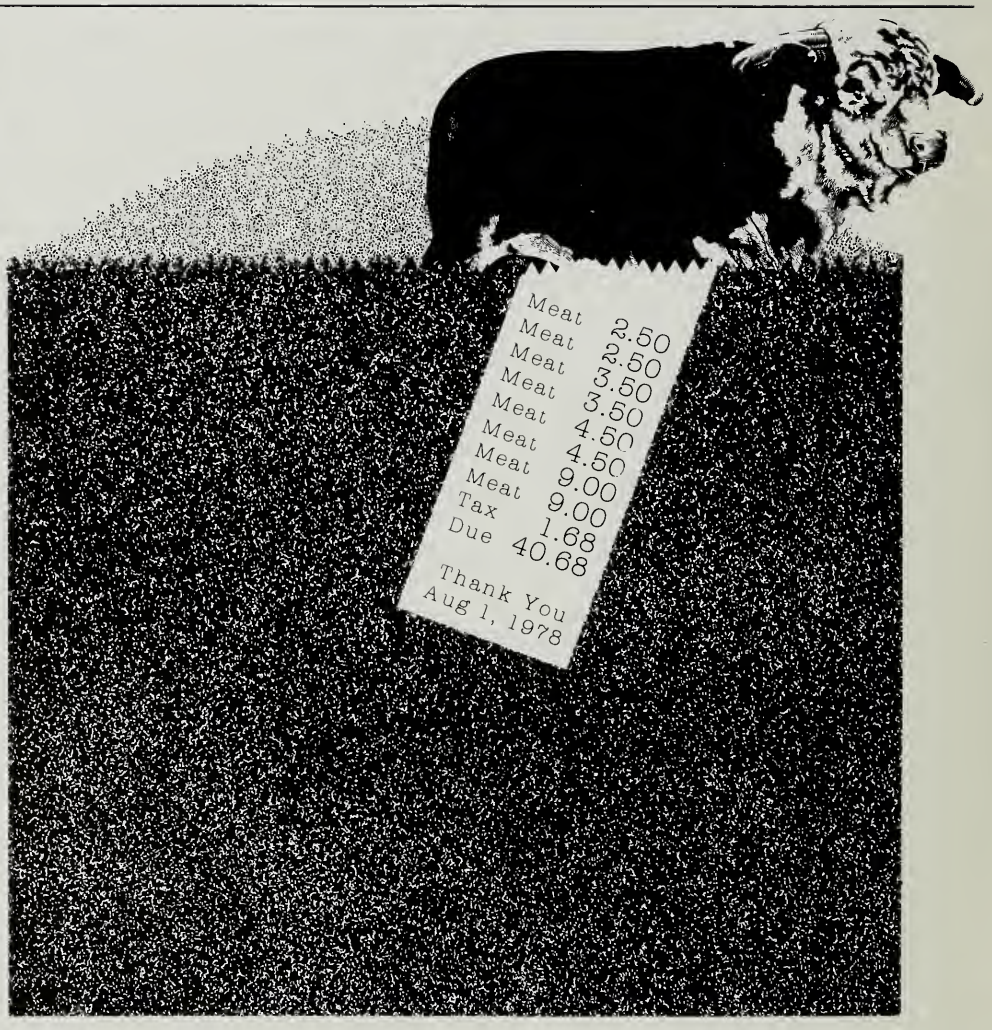
The reduction is continuing this year, but it should slow during the last half of the year and may end next year.

Herd selloff effect. Initially, such a selloff boosts beef supplies and depresses prices. But, over the long run, it lowers the calf crop and, in turn, the amount of beef available to the market.

Reduced beef supplies caused a sharp price recovery in cattle this spring. Prices abated some when the Administration announced more beef imports would be let in this year than had previously been permitted.

Even so, average retail prices for Choice beef are expected to be 20 percent above year-earlier levels during the fourth quarter of this year.

Red meats and poultry comprised about 15 percent of the retail weight equivalent of food consumed in the U.S. during the past 5 years. Because of higher per-pound costs, red meats and poultry account for about one-third of the total food expenditures. Beef accounts for a major part of the meat consumed and of the expenditures for meat.



Biological factors. Behind the price boosts lies a supply situation that is greatly influenced by beef and pork production cycles. Because of biological factors, the beef production cycle, which is about 10 years long, lasts far longer than the approximately 4-year pork cycle.

Livestock producers watch prices closely to determine whether to expand or reduce production. Higher prices signal the time to increase, while lower prices mean that it's time to slow or reduce production.

Of course, livestock producers can't respond overnight to a signal for higher or lower production. And there's no guarantee that the price situation won't be reversed before a producer can react to the previous signal. Thus, these price signals and biological lags govern livestock production cycles.

Relative advantages. The time required from birth until slaughter for a given type of livestock or poultry determines the relative biological lags. While beef cattle producers must wait about 27 months from the time a heifer is bred until the offspring reaches slaughter weight, the hog producer requires only 10 months. A poultry producer enjoys even a greater advantage, with only a 3-month turnaround.

If the cattle producer wants to rebuild his depleted herd, the process takes even longer. If the first offspring of a heifer is retained to build the herd rather than taken to slaughter, 5 1/2 years could elapse from the time the first calf was retained until the newborn heifer matures and bears an offspring which reaches slaughter weight.

Response lag. Thus, once the herd is being rebuilt, production increases will continue long after lower prices signal time to reduce the herd. And that's what happened in the 1974-76 period, when higher and higher beef production occurred despite lower prices, thus causing large financial losses to cattlemen.

Now, the cattle inventory cycle is nearing a turning point. The end of the herd reduction period soon will occur, with herd rebuilding to follow. Producers are now receiving the higher prices—signals to expand herds.

Turn in cattle cycle? Not yet: The July cattle on feed report showed greater numbers of heifers on feed than a year ago, and the midyear cattle inventory report showed herds to be 7 percent smaller.

The source of these price signals is the American consumer. The primary influences on longrun demand are consumer tastes, preferences, attitudes, and incomes. Current incomes and relative prices of other products affect shortrun demand.

Americans show a growing taste for meat, with per capita consumption of red meats and poultry reaching 242 pounds in the 1975-77 period—up 19 pounds over a decade earlier.

Still a good buy. This increase came despite rising meat prices. This may be due to an overall rise in inflation that has been so great that beef price increases have lagged behind. When dollars are adjusted for inflation, retail beef prices in the first quarter of 1978 were cheaper than in 1971 and 1972—before food price inflation surged upward.

In other words, consumers could buy more beef for the same amount of inflation-adjusted money last March after the latest price surge had already gotten underway, than during any quarterly period from 1971 through mid-1976. Even faced with fast-rising prices, consumers still paid more for beef, thus supporting prices.

Marketing system. Another influence on meat prices is the marketing system, which includes all steps in handling between producer and consumer. At each step in the process, each different handler must turn a profit in the long run. The cost of marketing is measured by the farm-retail price spread—total markup between farmer and consumer by the "middlemen" handlers.

While the farm-retail price spread has increased sharply during the past decade, this indicates rising costs rather than excessively fattened profits. Rising labor, energy, and other production costs, along with consumers' demands for more expensive convenience food forms, will continue to boost the retail price. All of these costs push retail prices higher.

Price takers. The producers—farmers—are largely price takers who have no control over prices they receive for livestock in the short run. This is because once the animals reach slaughter weight, farmers can only hold them back from the market a very short time. Thus, their only control is to vary the level of supply over the long run.

Producers' profits vary with price levels and production costs. Less than a decade ago, cattlemen enjoyed a period of strong demand and low and relatively stable feed costs—thus they were encouraged to expand their herds. Then, in 1973, production costs soared with grain price hikes.

In response to sharply higher grain prices, pork producers made massive liquidations in 1974, and pork production dropped drastically in 1975, forcing hog prices up. Hog prices remained relatively high through 1977, and are expected to average above the 1977 level this year. This should encourage higher production next year.

Lean times for cattlemen. Meanwhile, beef cattle producers have suffered. A glance at the "net margin per head" since 1972 shows why. Cattle feeders lost money on most cattle sold during the past 4 years, with losses exceeding $100 per head at times. But this year, net margins have shifted in the black as fed cattle prices have risen.

Returns to cattle feeders will probably be good through this summer. However, with feeder cattle prices rising, cattle feeding profits may be squeezed by yearend.

Out of business. Four years ago, a weak demand for feeder cattle, coupled with a continued buildup of supply, pushed

prices down sharply. Prices remained low through 1977 and compounded producer losses. During this period, many dropped out of business.

In the aftermath of 1974, the massive liquidation of the cattle herd was launched in 1975, continuing even through this spring after the sharp runup of cattle prices. Producers may need an extended period of higher prices to regain losses of the past few years. In other words, such a period of higher prices may be needed to entice sharp production increases.

Pushing these trends into the future, it appears that beef prospects for consumers will remain dim for the next few years.

More decline coming. Beef production is almost sure to decline during the rest of 1978. The reduced cattle inventory will yield smaller supplies over the next few years. Herd rebuilding—saving heifers instead of sending them to slaughter—will also contribute to lower beef supplies for the next few years. Prices will be trending upward, but at a lower annual rate of increase than in 1978.

Even after cattlemen decide to expand production, it will take awhile before production increases reach the supermarket.

However, increasing supplies of competing meats may offer consumers some alternatives. Although pork production didn't increase as was anticipated last fall, modest increases are expected this year, with much more possibly coming next year. Earlier, forecasters had expected larger pork supplies to temper beef price rises this year.

Poultry producers are reacting to the higher meat prices and expanding their output. Poultry production is expected to rise sharply this year and give consumers an alternative meat supply.

American consumers will probably shift some from beef to alternative food sources. The use of vegetable protein extenders in beef will probably increase. These will help to moderate retail prices despite smaller beef supplies.

[Based on the report, "Retail Meat Prices in Perspective," by James E. Nix, Commodity Economics Division.]

Costs and Net Margins for a Corn Belt Cattle Feeding Operation. 1/

Year and quarter	Total costs per head	Selling price per cwt. to cover— Feed and feeder costs	Selling price per cwt. to cover— All costs	Choice steers, Omaha	Net margin per head
	Dollars				
1973:					
I	464.72	39.08	44.26	48.57	45.26
II	506.15	42.77	48.20	40.47	-81.16
III	568.34	48.46	54.13	45.46	-91.04
IV	516.02	43.52	49.14	40.01	-95.86
1974:					
I	536.82	45.39	51.13	43.91	-75.81
II	468.99	38.98	44.67	38.19	-68.04
III	479.99	40.10	45.71	35.72	-104.90
IV	460.50	38.27	43.86	48.03	43.78
1975:					
I	422.92	34.79	40.28	48.64	87.78
II	456.19	37.86	43.45	46.05	27.30
III	468.86	38.97	44.65	38.71	-62.37
IV	466.52	38.55	44.43	41.42	-31.60
1976:					
I	477.82	39.56	45.51	37.30	-86.20
II	516.78	43.06	49.22	39.00	-107.31
III	487.49	40.19	46.43	37.88	-89.78
IV	452.66	37.28	43.11	40.77	-24.57
1977:					
I	475.34	39.26	45.27	40.47	-50.40
II	489.50	40.39	46.62	42.42	-44.10
III	452.56	36.91	43.10	45.77	28.03
IV	456.10	37.24	43.44	—	—
1978:					
I	515.07	42.41	49.05	—	—

1/All costs are valued at prices paid in the month the cattle were placed in a feedlot. Costs represent the quarter in which cattle were placed in a feedlot, while the steer prices and net margins reflect selling prices two quarters later.

Foreign Meat: A Subject of Import

Chances are, that all-American favorite—the hamburger—is not 100 percent American. That is, the hamburger meat may be partially of foreign origin.

On the average, our country imports about 7 percent of the beef we eat, depending upon demand here at home as well as our import quotas. For 1977, this totaled over 1.9 billion pounds(carcass weight), most of which—nearly 85 percent—was fresh or frozen boneless beef.

And most of that beef goes into the processing till in the U.S. Data for 1969-70 (latest survey) show that about 90 percent is used as a processed product. Or put another way, 15-20 percent of the processed beef (including ground beef) that we eat is imported.

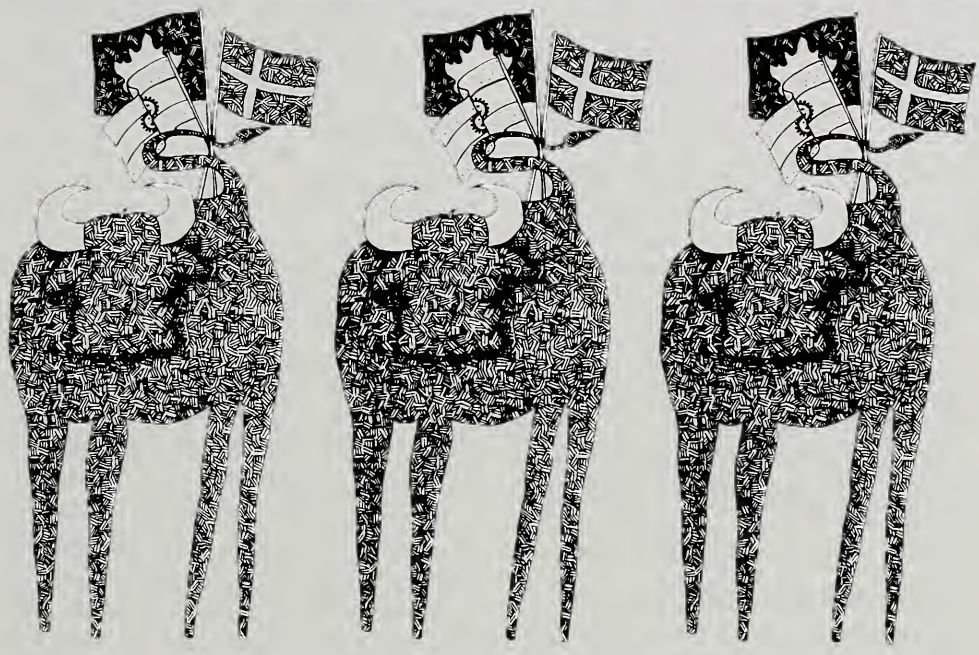
The next biggest beef item is corned beef, accounting for 7 percent of our beef imports. Veal accounts for only 1 percent.

Other than beef. Obviously, our meat imports don't stop with beef, although they make up the bulk of them—80 percent.

In 1977, we also imported 439 million pounds of pork—slightly over 3 percent of our total pork consumption. And canned hams and shoulders accounted for most of that.

Lamb, mutton, and goat make up the remainder of our red meat imports, accounting for only a fraction of the total. Most is lamb—21 million pounds in 1977—with mutton and goat only a little over 1 million pounds. Altogether, these imports tote up to only 6 percent of the lamb, mutton, and goat meat we eat.

Incidentally, although demand for these meats has fallen in our country, imports have dropped even more. They went from around 20 percent of consumption in the late sixties to only 6 percent this past year. The big dropoff point came in 1973 when the figure was slashed by more than half.



Source of meats. So where do we get the red meats that we import? The bulk of the pork originates from Denmark, Poland, the Netherlands, and Canada, in order of importance. Virtually all our lamb and mutton imports come from Oceania—Australia and New Zealand.

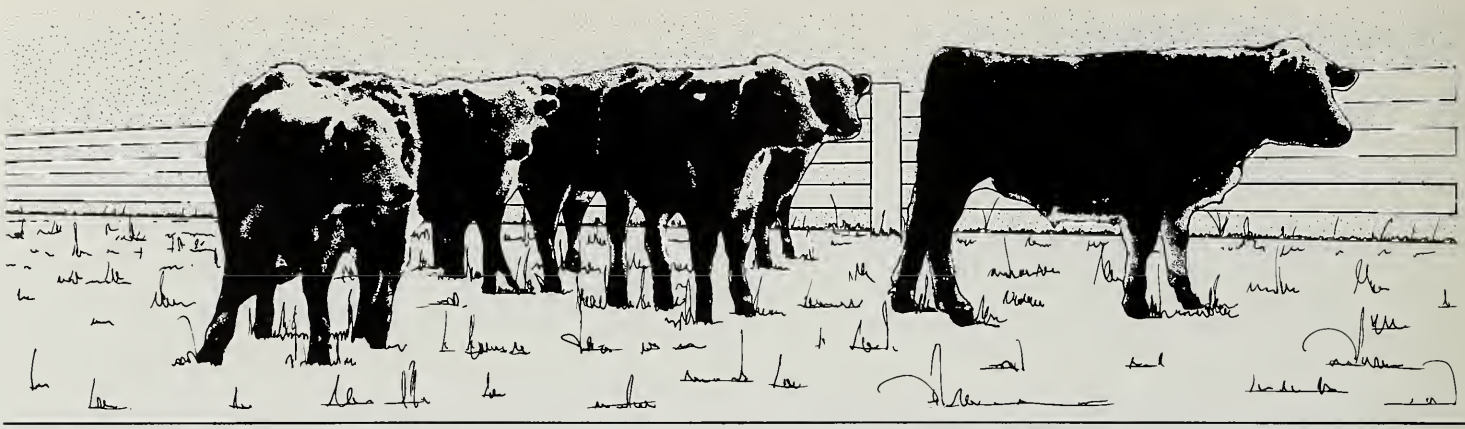
Australia and New Zealand also figure heavily in beef and veal shipments to the U.S.—they account for two-thirds of such imports. Other suppliers of note are Argentina, Canada, Mexico, and Brazil. Our North American neighbors even send some live animals.

On the other side of the trade coin, the U.S. does export some red meat, although imports far outweigh exports—by 6 to 1.

However, if the total animals from which red meat comes are considered, the U.S. forges way ahead in shipments of variety meats, animal fats, and hides and skins (excluding sheep and lamb, but more of these are shipped live). And valuewise, these products offset the deficit in red meat trade so that the dollar figure fairly well balances out between exports and imports.

Export lineup. Although beef is the leader in U.S. red meat imports, it takes a back seat to pork in exports. In fact, last year we exported 294 million pounds of pork(carcass weight)and only 103 of beef and veal. Lamb and mutton came in a distant third, with not quite 5 million pounds. (However, that mere amount was more than double that of 5 years ago.)

The biggest customer for our pork was Canada, with over a 60-percent share. Japan was next, taking nearly a fifth of



that exported. Venezuela, Mexico, and the Bahamas were others of note.

Japan bought nearly half of our exported beef and veal in 1977. Japan has gone from a nominal taker of U.S. beef in the past decade to our No. 1 customer. In 1968, we sold the Japanese less than a half million pounds; last year, nearly 45 million. As a result, total U.S. beef and veal exports have shot up, although some gain has come from other countries.

In addition to Japan, other significant takers of our beef and veal are Canada, the Bahamas, and Venezuela.

As for our lamb and mutton exports, Canada is the largest single market, taking over a third in 1977. Distant runners-up were the Bahamas and Mexico.

Behind the scenes. There's more to the U.S. red meat trade situation than meets the eye, though—namely the 1964 Meat Import Act.

This act grew out of a concern to harness imports so that domestic cattle prices would not suffer unduly. The law itself came on the heels of a 10-year rise in imports and a sharp decline in U.S. cattle prices.

Basically, the law sets up a formula for import quotas on fresh, chilled, or frozen beef, veal, mutton, or goat meat. The formula is intended to keep such imports at the same percentage of domestic production that existed during the 1959-63 base period (about 7 percent).

The quotas are allocated to individual countries on the basis of what they've shipped to us in the past. Only those countries certified to be free of hoof and mouth disease and up to U.S. inspection standards are considered.

Note that imports of lamb, pork, prepared or preserved forms of beef, veal, mutton, and goat meat, and other meats and meat products, as well as live animals, are not covered under the law. And about one-third of our total red meat imports fall into these exempt categories.

The workings. Here's how the law works . . .

Each year, the Secretary of Agriculture is required to publish in the Federal Register the estimated quantity that would trigger the imposition of quotas under the law. He is required to estimate quarterly the quantity of meat that, but for the law, would enter the U.S. in that year.

If the Secretary's estimate of imports exceeds the trigger level, the President is required to invoke quotas on imports of meats subject to the law. Quotas may also be suspended or the total quantity increased if the President determines and proclaims that any of the following exist:

- Such action is required by overriding economic or national security interests, giving special weight to the importance to the Nation of the economic well-being of the domestic livestock industry.
- The supply of articles of the kind described will be inadequate to meet domestic demand at reasonable prices.
- Trade agreements entered into after the date of the enactment of this Act ensure that the policy set forth will be carried out.

The track record. Since the law was enacted, voluntary restraint agreements have been negotiated in 6 years at or below the level at which quotas would be imposed. On three other occasions (1972, 1973, and 1974), the President suspended quotas entirely, allowing unrestricted imports. The quotas have been imposed only once—in 1976.

The negotiated voluntary restraint program for 1978 originally was set at 1,292.3 million pounds of regulated meat. It included agreements with 12 nations and an exchange of letters with Canada. However, in June, the President called for a renegotiation of the agreements to increase the amount by 200 million pounds.

The economic impacts of this move are not expected to be great for either retail meat prices or cattle prices. Any effects at the retail level will probably show up as small price checks on convenience meat and less expensive cuts such as hamburger. Domestic cattle prices will most likely be only slightly affected.

Precipitators. Some facts leading up to the President's action . . .

- The U.S. cattle herd is subject to 10-year cycles. It reached a record high of 132 million head at the start of 1975, and has been on a downturn since. As of January 1 of this year, it had fallen to 116 million, and will likely decline further this year.
- Since 1974, many livestock producers have experienced losses. For 15 of the past 24 quarters, cattle feeders have suffered net losses. However, returns to producers are now above cost, and prospects for the next 2 to 3 years look good.
- Retail meat prices, stable for the past 3 years with record meat supplies, increased about 15 percent during the first half of 1978. Reduced cattle inventories and adverse winter weather, combined with strong beef demand stemming from record employment levels and increased earnings, are mainly to blame.

• Retail beef prices declined in 1976 and remained about the same in 1977 due to record beef supplies. However, Choice beef prices rose almost 20 percent during the first half of this year. These higher prices have contributed to the rise in food costs this year.

• Total U.S. meat production this year will be approximately 51.6 billion pounds, about 1 percent below year-earlier levels. Although beef production is expected to be down 4 percent, pork production will be up 2 percent, and poultry output will expand about 7 percent.

The debate. The 1964 Meat Import Act itself has been the subject of considerable debate. In fact, there are often numerous bills in Congress calling for changes in our import quotas.

Although reducing beef imports to zero has popular appeal to cattle producers, and no restrictions are favored by many consumer groups, neither is likely nor practical. Still, the ticklish situation exists of imported beef being a welcome addition to our beef supply when domestic production is low, and a burden when it is high.

The U.S. also has its world role to consider in deciding import policies. Currently, our country is the leading importer of beef, taking about 27 percent of the world beef exports.

And as the U.S. livestock industry moves, so does the world, so to speak. That is, any changes in U.S. production, consumption, or trade of livestock ripple throughout the world livestock economy.

Therefore, the U.S. has the two-edged task of setting trade policies which not only protect the domestic front but also ensure a relatively open trade situation.

[Based on *Livestock and Meat Situation*, Feb. 1975 and April and June 1978, Commodity Economics Division (CED); "Meat Imports," Congressional Research Service Issue Brief IB77049; White House press release, "Fact Sheet on Meat Imports," June 8; "Assessment of the Meat Import Law," Richard Crom and Joseph Arata, CED; and special material from James Nix, CED.]

"Product of . . ."

To label or not to label—that is the question. And a not so easy one for consumers, manufacturers, and policymakers concerned over U.S. meat imports.

Currently, the only imported meats which are so designated are those which are processed and packaged abroad. A good example is canned ham.

However, some processed meats are repackaged after they reach our shores and thus lose their import label before reaching the consumer. An example is beef imported from Argentina. Because of hoof and mouth disease in the country, the meat must be cooked before it can be shipped to the U.S. Here it is mixed with other ingredients to form processed products such as chili or stew.

Meats which come to our country in either a fresh or frozen state are rarely identified as imports at the final sale. Take, for instance, frozen boneless beef—by far the major meat item imported. Over 90 percent of this is ground up and mixed with domestic beef for hamburger or sausage products. It basically is not sold on its own.

Some consumers are concerned about this imported meat that escapes their notice. They want to know if it's on par with the U.S. product in quality and price. Livestock producers are concerned that these "undetected" imports compete with their product.

Congress is responding to these concerns by looking at several bills which address the issue. And ESCS has evaluated the economic impacts and feasibility of such labeling.

Costs of enforcing a labeling law, says the ESCS study, would seem to be the major economic factor. To illustrate, ground beef and sausage products containing imported beef could potentially be sold in more than 400,000 outlets, and there's no way to test the end product to determine its origin.

Effects on the consumer or the meat industry in general, though, would most likely be quite small. How much of an impact would depend upon how the consumer views a particular product.

For example, a Danish label on a ham or a German one on bratwurst lends prestige. However, consumers might balk at—if they were made aware of—imported ground beef in a restaurant boasting a western motif. Too, some people living in beef-producing regions of our country might shun the imported product purely on general principles.

[Based on the manuscript, "Economic Effects of Requiring Imported Meats To Be So Labeled," by Larry Duewer and Richard Crom, Commodity Economics Division, and Bob Lenahan, National Economic Analysis Division.]

Commodity Profile:

Beef and the Feedlot: The Tie Strengthens

To know the size of the fed cattle industry is to know the ups and downs of feed grains.

Since USDA started keeping track of the number of cattle on feed in 1930, the share of total commercial cattle slaughter linked to the feedlot has more than doubled. In 1930, about 5 percent of the January 1 cattle inventory included cattle on feed.

On January 1 of this year, nearly 12 percent of the cattle inventory was cattle on feed.

Since 1970, the share of the total commercial slaughter from fed cattle marketings has ridden a roller coaster.

Up, down, and up. Fed cattle marketings started the decade at 73 percent of total commercial slaughter, climbed to a high of 77 percent in 1972, and then slipped to a decade-low of 52 percent in 1975, inching back to 61 percent last year.

During the first half of this year, with feed grains in large supply, the share of fed cattle pushed a little more, to about 68 percent.

Most of these changes can be traced to grain supplies and prices. Naturally, feeders fatten cattle more when grain prices are low, and slack off when prices rise.

For instance, take a look at that low year, 1975. That was the year after the start of corn for $3 a bushel, and feeders cut back sharply.

Three years earlier, the decade-high of 77 percent dovetailed with relatively low grain prices.

Flipping through the pages. Leafing through U.S. agricultural history, one finds fed cattle have always been around, but they haven't always been the chief source of beef.

The explanation for the increased feeding of cattle is clear: It's more profitable for producers to finish cattle that way, when grain prices are sufficiently low.

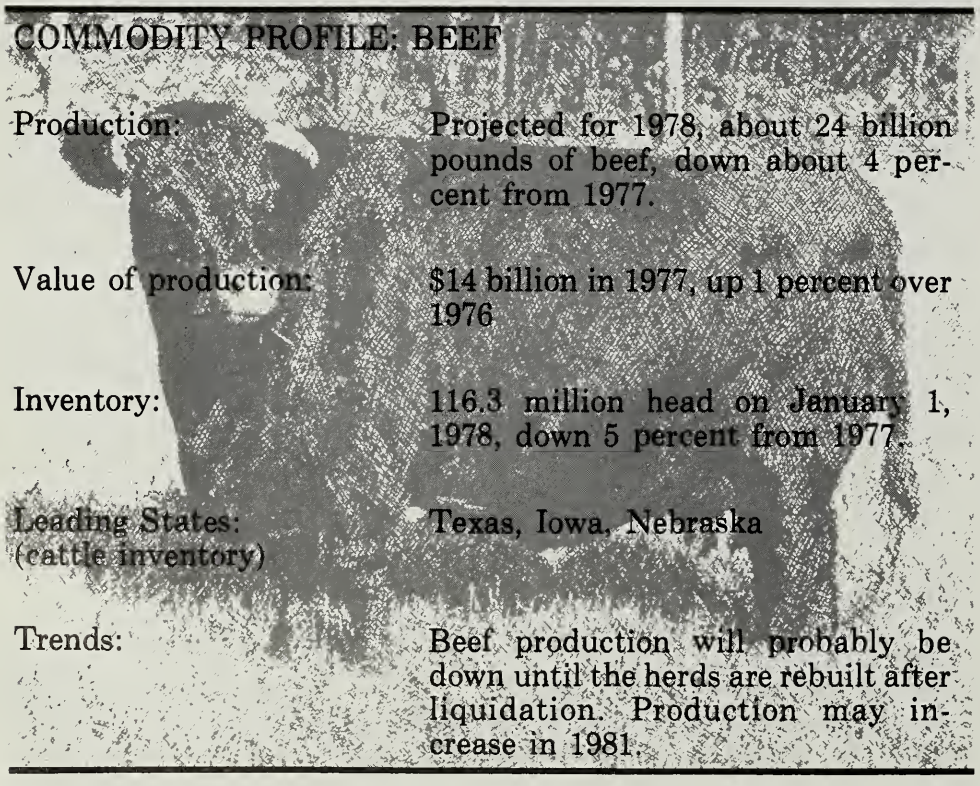
But there's more to it than simple profits. Grain-fed beef is in demand in the U.S., being the preferred flavor, quality, and texture. Some producers have eased off the amount of grain they feed—even with low prices—because their customers showed concern over eating too much fat. But for the most part, the American public still wants beef fed with grain, when the price fits peoples' budgets.

The decreases are small. The cutback in grain-fed cattle has been slight, as reflected in the average carcass weight of slaughter beef. During the first quarter of last year, for example, fed cattle's share of the total slaughter jumped to 64 percent, but average dressed weights were down 3 pounds, a sign that feeders were offering cattle a little less grain or other feed.

Cattle producers who move their animals off range or pasture and into the feedlots are also influenced by the grazing conditions. If grazing is poor, the feedlots are busier than if, like this year, grazing in the U.S. is mostly good.

Vacancies at the feedlot. If grazing conditions remain good, feedlot managers might have trouble getting large numbers of cattle to feed, even if feed grain prices slip. Currently, economists expect that placements of cattle on feed this summer may only match last year's high level.

Of course, if grazing conditions turn sour, the number of cattle placed on feed might jump.



COMMODITY PROFILE: BEEF

Production:	Projected for 1978, about 24 billion pounds of beef, down about 4 percent from 1977.
Value of production:	$14 billion in 1977, up 1 percent over 1976
Inventory:	116.3 million head on January 1, 1978, down 5 percent from 1977.
Leading States: (cattle inventory)	Texas, Iowa, Nebraska
Trends:	Beef production will probably be down until the herds are rebuilt after liquidation. Production may increase in 1981.

All of this points toward fed cattle slaughter in the second half of this year only 3 or 4 percent larger than last year. The big reduction in the amount of beef marketed, then, is coming from the non-fed, or the grass-fed, cattle.

The projection. Looking ahead, the experts fully expect more fed cattle, taking an ever larger share of total beef production through 1980, if grain supplies remain ample and favorably priced for cattle feeding. The causes are traceable to public demand for grain-fed beef, along with the general movement in agriculture to raising meat animals in confinement. That will probably happen despite the greater expense for the farmers, because of their need for greater control over production and marketing.

Costs of production for feeder cattle have jumped dramatically in recent years, and that's had a kind of ripple effect on all facets of cattle production: If the cost of producing a feeder calf is higher, producers must receive higher prices for the finished product to stay in business.

Beef and land values. Fully one-half the cost of producing feeder cattle is in land charges. In the past 5 years, land values have doubled, and while the price of beef was relatively low, producers suffered. They were often unable to wring their costs out of the selling price of cattle.

And while fed cattle and feeder cattle numbers will probably struggle upward in coming decades, as in other farm enterprises the number of producers will probably dwindle—the industry is consolidating.

Land costs have something to do with that movement. People who aren't already in the business of raising feeder cattle find a discouraging word in the cost of land. For the new entrant, land values averaged $2,375 per cow in 1976. But for the ongoing producer who owned the land since the 1940's, the value per cow was under $800.

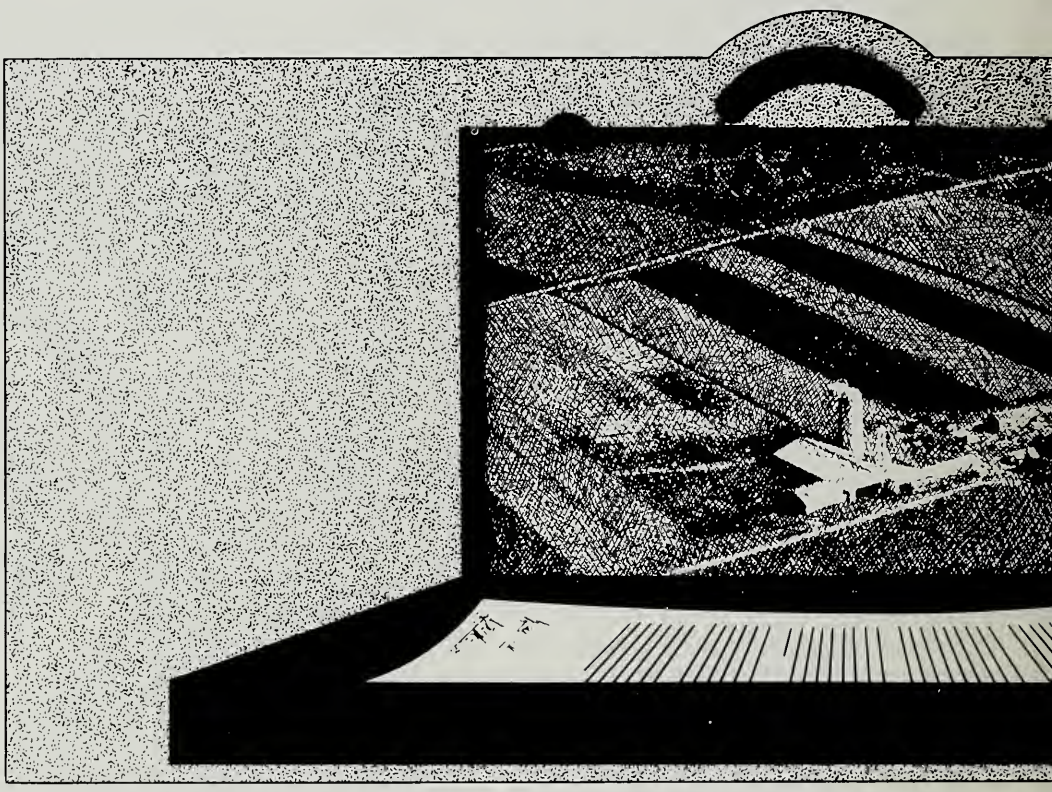
Varying values. These values vary by region. In the Southwest, where more acres per head are needed because of the lack of grass and the dry climate, the land value per head for new entrants was an average $3,868 in 1976, while the value of land owned by ongoing producers was $1,230.

At the low end of the scale was the West, where fewer acres of privately owned land per animal are needed, because public lands are often used for grazing. There, the land values were $1,450 per cow for new entrants, and $461 for the old hands.

Considering these factors—land costs, the demand for grain-fed beef, and the movement to raising livestock in confinement—the feeder cattle and fed cattle industries of the future will probably be strong. And home barbecues will probably continue to crackle with the sound of sizzling beef.

[Based on special material from James Nix, Commodity Economics Division, and William Dobbs, Estimates Division; and on *Costs of Producing Feeder Cattle in the U.S., 1976, Preliminary Estimates,* ESCS-25, by Ronald A. Gustafson, Henry C. Gilliam, Jr., and Calvin C. Boykin, Jr., Commodity Economics Division.]

The Elusive Landowner



Back in the early days of our country, it wasn't too difficult to tell who owned what land. The landowner was usually found living there.

Today, though, the picture is fuzzy, if not completely fogged. The thanks go to such modern-day legal entanglements as corporate holdings, absentee rentals, foreign investments, tax-shelter setups, trusts, and splintered ownership of land rights—water, easement, mineral, air space.

How then does one go about determining who—or what—is a landowner?

To start with, a landowner is whoever is legally recorded as the principal owner of a particular piece of land. Sounds simple enough, but there are numerous problems.

Landowner types. First of all, owners may be individual persons, combinations of persons, or legal bodies such as trusts or corporations.

Take the husband/wife partnership—the most common form of ownership as well as the easiest to trace. In studies of the Great Plains and Southeast, for example, over half the owners were husbands and wives. And, these partnerships owned almost half the land.

Other ownerships consisting of more than one person are not so easy to put a finger on. The main problem is that at some point, the individual shareholder's interest in a corporation becomes so small that it loses relevance as a measure of control over corporate assets. For example, a shareholder in a big corporation which owns land cannot be considered a landowner even though he "owns a piece of the rock."

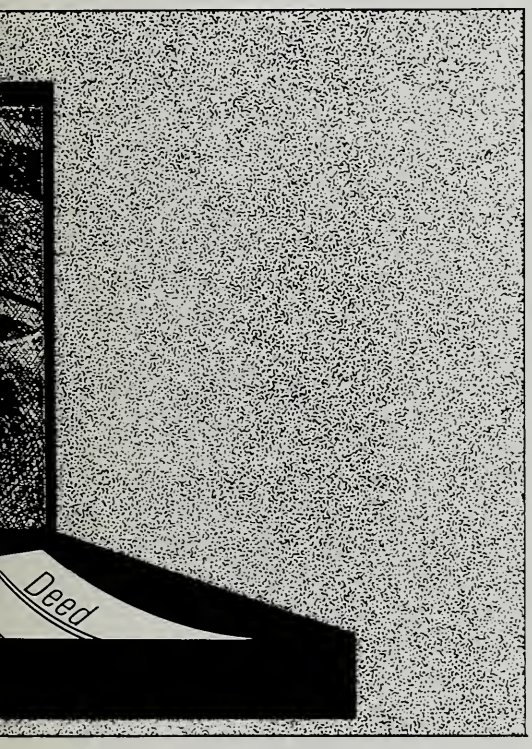
Varying relationships. The problem of who owns what land is further compounded by the fact that one owner can hold several parcels of land. And, he can hold these in various relationships to other owners of the same land. That is, on one piece of land, he may be the sole owner; on another, he may be part of a partnership; on another, he may have a controlling interest in a corporation. Obviously, the possibilities are virtually endless.

Ownership can be further fractured by a parceling out of various land "rights." Rights to explore and drill for oil may be separated from surface rights through reservation, sale, or lease. An easement for a pipeline may be granted, or airspace rights withheld. A property may be mortgaged, or a mechanics lien may be created. Zoning restrictions may also be imposed.

The list goes on with restrictive covenants, condominium setups, development rights, reversionary interests, and, even emerging solar rights. The government adds powers of taxation, regulation, eminent domain, and escheat (in essence, land reverting to the State if an owner can't be found).

Difficult search. Conceptual problems aside, how does one identify owners of land in the sources available? The answer is, not very easily or even accurately.

The real estate industry alone incurs over $8 billion of transaction costs a year—a good portion of which goes to find out who owns the land. And the search is not limited to title examination. Market studies, location of buyers and sellers, site evaluation, tax appraisals, and land use plans require various levels and types of ownership information.



The problem boils down to the fact that much of the information about land ownership is duplicative, in bits and pieces, contradictory, and varies over time. The results from the traditional recordkeeping system which leave the details up to each town, city, or county.

Name game. For example, a sample of owners taken from tax records would differ from those shown on the grantee index in the recorder's office. And both may differ from the names actually contained in the deeds, also found in the recorder's office.

Speaking of names, that's about all the information public records on land ownership provide. Even this poses problems, as often the spelling is not uniform or even accurate, and multiownerships are often masked.

But even if the names were complete, accurate, and uniformly spelled, it would be difficult to classify owners without additional information about their characteristics—such as occupation, income status, or organizational form.

Aggregating agony. Given the data problems that exist within a single jurisdiction, collecting available information on a State, regional, or national basis gets increasingly complex. Any aggregating is bound to result in overcounting or some form of misrepresentation.

The problem gets worse when dealing with ownership of separated land rights. Data can usually be determined for an individual parcel of land by examining tax and title records, ordinances of local jurisdictions, and the physical appearance of the property. However, any amassing of these statistics from public records is virtually impossible, given current organization and methods.

Also, documentation for some rights, duties, immunities, and liabilities separated from or attached to a parcel of land do not even exist. And a further complication is that some land ownership information is kept confidential.

So what then can be done to better determine who owns what land?

Government actions. Well, some things are already being done. Two Federal laws have authorized the improvement of land records. The International Investment Survey Act of 1976 specifically authorizes feasibility studies of multipurpose data systems to acquire land ownership information—both domestic and foreign. The Real Estate Settlement Procedures Act of 1974 seeks to improve the recording procedures and related land records.

ESCS is currently conducting The Resource Economic Survey of Land Ownership—a direct sample of 50,000 privately owned land parcels. The survey is set up to determine who owns the land; the type of owner (individuals, corporations, trusts, etc.); owner characteristics such as occupation, income, and age; total quantity of land held by an owner and its use; and the land's improvements, management, acquisitions, and dispositions.

From all this data, ESCS will then estimate land ownership figures for entire States. The results are due late this year or early 1979.

Bandwagon bulge. And the Government is not the only one on the bandwagon. The American Bar Association's Committee for Improvement of Land Data has proposed and continues to encourage the development of multipurpose date systems. Ditto for the North American Institute for the Modernization of Land Records, a nonprofit corporation with participation from both professional groups and Government agencies.

After all this, you might ask: Doesn't anyone have any idea as to who owns what land? The answer is yes, but analysts caution that there are only ballpark estimates in many cases.

Government No. 1 holder. To start with, the Federal Government holds about one-third of our country's 2.3 billion acres of land. Another 51 million acres are owned by Indian tribes. For these two classes of owners, the data is fairly firm and current.

The remainder of the public lands are owned by States—97 million acres—and other governments—39 million acres.

But it isn't known how many of the 27,000 possible jurisdictions (States, counties, municipalities, and townships) and various government agencies actually own land.

The amount of U.S. land in private hands is 1.3 billion acres—a figure derived by deducting all the other classes of ownership from the total U.S. land area. Otherwise, the figure would be impossible to determine from scratch.

As best as can be calculated, the privately held land breaks down as follows:

- 63 percent in farms and ranches, with 3-4 million owners.
- 32 percent in forests, owned by around 4 million.
- 5 percent in housing, businesses, roads, etc.

Homeowners—big minority. Although agriculture and forestry account for most of the area of private lands, housing chalks up the most owners. In fact, there are 47-58 million owners of occupied housing units. Or put another way, residences cover only 2 percent of the Nation's land area, but represent over three-fourths of the owners.

[Based on the manuscript, "Land Ownership: A Status of Facts," by Gene Wunderlich, National Resource Economics Division.]

Mystique of the Land

Land ownership is near and dear to the heart of almost every American.

When our country was founded, staking a claim to a piece of land served for many as a final break with European serfdom. Land ownership became a symbol of freedom—and equality, to a certain extent.

Thomas Jefferson was among the first of the Nation's leaders to realize the importance of land ownership to economic opportunity and political democracy. In 1785, he wrote to James Madison: "It is not too soon to provide by every possible means that as few as possible shall be without a little portion of land. The small land holders are the most precious part of the state."

To further underscore the political importance of landholding, only landowners were allowed to vote in the new republic. And land ownership was exclusively reserved for men, since it was thought at the time to be far too important to be entrusted to women. "Men" was also restricted to free, white men.

We've come a long way since the days of the founding fathers in moving toward a more equitable distribution of land ownership. But still, there are concerns over the power mystique of land.

One contemporary economist has summed up a concern over unrestricted property acquisition this way: "Once fortunes are created, they are husbanded, augmented, and passed on, not because of 'homo economicus' desires to store up future consumption but because of desires for power within the family, economy, or society."

Another area of growing concern is that of foreign investment in U.S. land. Since the control of land is firmly rooted in the American tradition with political and economic power, foreign land buyings are being watched with a cautious eye. And concern has mounted since the oil-rich middle eastern countries have been turning to U.S. investments for their new-found wealth.

And strictly agriculturally speaking, the future of the family farm has created waves of anxiety. As agribusiness looms larger, and small farms continue to decline, the position of the family farm in our society becomes more tenuous, despite efforts to bolster it, such as the Federal Reclamation Act of 1902.

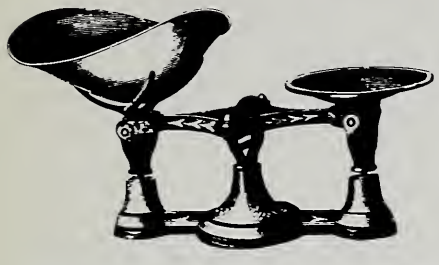
The Congressional hearings on this Act—entitled Federal Reclamation Policy Part I: Will the Family Farm Survive in America?—observed the following:

"...in the case of the national reclamation program, there is literally no question but that one of its fundamental purposes and intents was to encourage the development of independent, small-business, family-sized farms—to settle people on the land or near it, and to enable them to own the land they farmed; to spread the benefit of subsidized irrigation water to just as many people—independent, bona fide farm families—as possible."

And finally, individual land ownership has been increasingly threatened in the past decade by inflation. As inflation has eroded purchasing power while, at the same time, sending real estate values and taxes skyward, many have seen the potential of land ownership slip further from their grasp.

To illustrate, housing costs have more than doubled since 1967, and farm real estate values have nearly tripled. Although farm income has also increased, it's been outpaced by the rapid rise in land values. And, in fact, since 1973, farm income has actually decreased.

Balancing the Farm Ledger



The 1978 farm financial page last winter did not carry good news for farmers who want to make big profits in the business. High land prices and increasing debts were causing the financial situation to deteriorate. However, higher farm income expected in 1978 should result in improvement.

Return to equity in farm production assets fell to 2.3 percent in 1977, the lowest in the last couple of decades, and down 8 percentage points from 4 years ago.

Taking a closer look at the asset/debt balance, we see that assets topped $708 billion and debts neared $120 billion. That represents an 8.3-percent gain in assets, almost all of which is due to inflation, and compares with a 16-percent average annual gain the past 5 years. Farm debt, including Commodity Credit Corporation (CCC) loans, increased by 16.6 percent.

Higher ratio. All this adds up to a higher than usual farm debt-to-asset ratio. The figure nudged 17 percent in January 1978, up over 1 percentage point from a year ago, and the highest since 1941—when it reached 19 percent. Still, the ratio is low compared with that for nonfarm businesses.

About three-fourths of the operator's equity is tied up in real estate, the most valuable farm asset. The value of individual farms did increase because of gains in asset values and the smaller number of farms this past year.

Real estate also secures a big debt: $64.2 billion in 1978, or a 13.5-percent boost from last year.

Land values. However, land values didn't rise as much as they have in the recent past—only 8.7 percent during 1977, compared with over 16 percent a year earlier.

This increase, the least since 1971, was probably because of the discouragingly low income prospects for farmers in 1977, which caused farmland prices to stabilize or even decline in some locations. In February 1977, farmland was averaging $450 an acre in the lower 48 States. This year, it averaged $490 an acre.

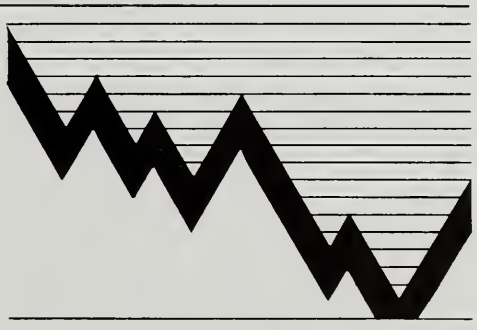
As for other physical assets, machinery and motor vehicle values didn't increase as much in 1977 as in recent years—only 7 percent—but livestock and poultry were definitely worth more than at the start of 1977. The value of livestock and poultry jumped 10 percent, to $32 billion, whereas in 1976 it declined 1.5 percent.

Crop values up. The value of crops stored both on and off farms was 12 percent above a year earlier. Although market prices were down last year for most crops, the larger volume of crops caused the total value to be higher by some $2.6 billion. However, the value of farmer-owned crops stored on farms and not under CCC loans in January of this year was about $2 billion less than in January 1977.

The 4.7-percent gain in farmers' financial assets included a near 10-percent boost in farmer cooperatives . Farmers' bank deposits also increased by 3 percent.

Bank deposits increase. Although the rise in bank deposits was below that of a year ago, the rise was unexpected after 1977's low income.

The increase is probably due to: (1) strengthening of some crop prices in late 1977, which prompted additional sales, (2) funds from CCC loans, and (3) farmers receiving about $3/4 billion in Government deficiency payments in late December. Much of that money was



probably in farmers' bank accounts at the end of 1977, although it may have been there only temporarily.

About two-thirds of the $7.6-billion increases in farm real estate debt was in Federal land bank loans and loans from individuals and other miscellaneous lenders. The highest percentage increase, however, was in loans from life insurance companies.

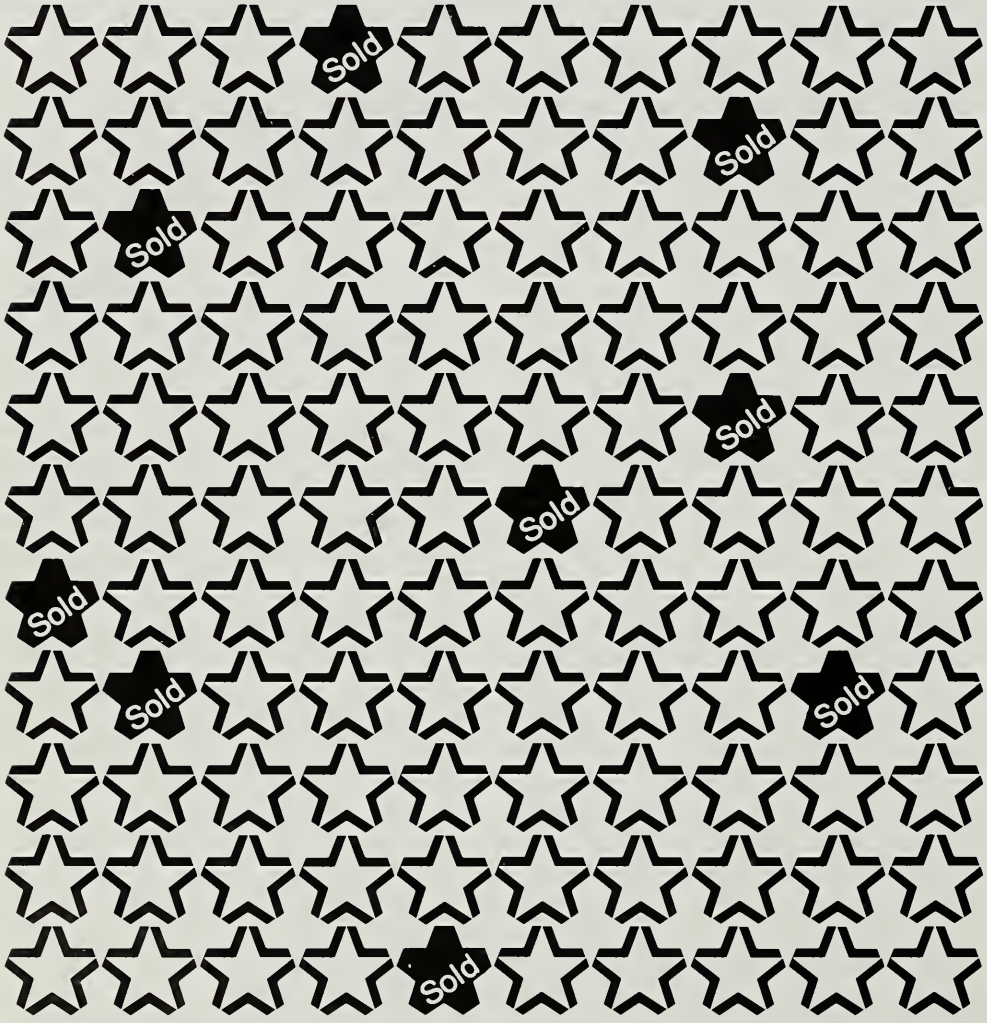
Major lender. Federal land banks remained the dominant lender. Commercial banks, also important lenders, had a 15-percent increase in farm real estate loans, almost double their 1976 increase.

Although Farmers Home Administration (FmHA) loans are not large when compared with the total, they do serve borrowers who aren't eligible for loans from other lenders.

Nonreal estate farm debt increased a record 20.4 percent during 1977. Two years ago, the estimated rise was 12 percent. An unusually large amount of FmHA loans and support loans on crops accounted for the increase. FmHA increased its nonreal estate loan volume during the year by two-thirds, mostly emergency loans. CCC loans were four and one-half times their January 1977 levels.

[Based on *The Balance Sheet of the Farming Sector, 1978,* AIB-416, by Carson D. Evans and Richard W. Simunek, National Economic Analysis Division.]

American Real Estate: The Overseas Link



Researchers have more questions than answers about foreign ownership of U.S. real estate.

Alarms have sounded in the news media, and the public has responded, asking for information on aliens buying American real estate. It's been suggested that such purchases could be harmful to agriculture and the Nation.

But economists say they can't provide good answers right now, since there are neither data nor analyses to support (or for that matter contradict) the concern. The most recent national data on foreign ownership date back to 1975. The U.S. Department of Commerce conducted a survey of all 6,000 foreign firms and individuals with direct investments in the U.S.

Small holdings. The survey revealed that the 6,000 known foreign landowners with holdings of more than 200 acres each held less than 5 million acres altogether. That estimate might have been low, however, because some foreign landowners hold less than 200 acres, and some buyers might have been part of some larger group and could have been missed.

On the other hand, some survey respondents might have included as part of their holdings offshore lands. Researchers have no way of knowing how important these variances are.

Still, even with generous allowances for foreign-owned land that may have been overlooked in the survey, the total is still less than 1 percent of all U.S. privately held real estate.

Not all in farms. If all that foreign-owned land was farmland, it would have represented slightly more than 1 percent of the farmland in the U.S. Note that most, but not all, of our privately held land is in farms.

Moreover, recent USDA information shows that foreign purchases of U.S. real estate occur at least twice as often in the cities as in rural areas. Besides, the value of the urban property is at least 20 times that of rural real estate.

While the amount of foreign-owned land is small when the U.S. is taken as a whole, in local areas the importance could be magnified. Land purchases are probably not evenly distributed throughout the States, and even if they were, some land is more important economically.

Other studies. Another Government study has recently come forth on the subject. The U.S. General Accounting Office (GAO) released a report in June which said, in part, that reliable data is difficult to obtain. In a spot check of land ownership in 25 counties in 5 States, GAO found that only three-tenths of 1 percent of cropland is owned by nonresident aliens.

GAO surveyed California, Kansas, Georgia, Missouri, and Oklahoma, and has been asked by the Senate agriculture committee to check out nine additional States. Committee members have an eye on some sort of restrictive legislation, if the survey shows that foreign ownership is a problem.

Most sources of information at the Federal, State, or local level have serious limitations.

Information incomplete. The Census of Agriculture holds some data for the researcher on this subject, but information isn't complete. The Census limits itself to land in farms, and it's concerned with farm operation, not necessarily farm ownership.

Other censuses are likewise limited because they focus on items and activities besides the land. Still, other Federal censuses don't identify the owners of the land.

Within most town or county assessors' offices are tax records, but the taxpayers are not always the owners. Besides, with over 65,000 taxing and assessment jurisdictions, the task of compiling all that information in one place would be monumental. Deed records, too, are not suitable for putting numbers together.

Sketchy data. A few Federal offices carry some information on foreign land investors, but mostly these records apply to a particular group that for some reason comes under Federal regulation. The data could not be considered representative of all foreign investors. Among the common questions about land ownership by nonresident aliens are these:

- Do these purchases limit opportunities for American farmers?
- Is the real estate market overheated because of the foreign purchases?
- If foreign ownership becomes more common, what will be the effect on U.S. trade and tax treaties and policies?

Public disclosure is rare. One reason information about foreign ownership is tough to obtain is that only two States—Iowa and Minnesota—require public disclosure of the nationalities of the land buyers. Nine other States prohibit foreign ownership, and five States severely regulate or limit the amount of land a nonresident alien may own. Most States have few laws dealing directly with the subject.

Yet another difficulty is that the identities of the actual buyers are sometimes masked by nominees, trusts, or other stand-ins and that transactions are often secretly negotiated through brokers.

Answers from a new study. ESCS is launching a study to delve into these problems. The study, planned for completion in late 1979, will consider methods for putting ownership data together. Among the problems to be addressed are the cloaking of owners' identities; the usefulness of public title and tax recordings; evaluation of existing sources of information; and the ways other countries keep track of foreign ownership of their land.

About a year before that report is ready, ESCS expects to release the Resource Economic Survey of Ownership. The survey is the first of its kind, and will sample some 50,000 places to find out who owns the land and where the owners live, including their citizenship.

Some questions will remain. But this study won't answer all the questions. The survey wasn't designed to remove the veil of nominal ownership—the cloaking of the real owners—nor was it set up to deal with foreign ownership in a comprehensive manner.

The Resource Economic Survey will provide information on major classes of landowners, and transfers and land use.

While some alien ownership is expected to be veiled in the Resource Economic Survey, the results should permit alien ownership to be put in perspective.

The question of foreign ownership of U.S. land is not likely to fade away soon. Investors in other countries have charted America's growing importance in the world agricultural community. Besides, investing in this country is considered relatively "safe" because the government is stable, and the exchange rate between the U.S. dollar and some Western European currencies is favorable to investors in those countries.

Because, in part, of the value of the farm commodities that can be produced, U.S. land itself has never had a higher value. Lately, the rate of increase has slowed somewhat.

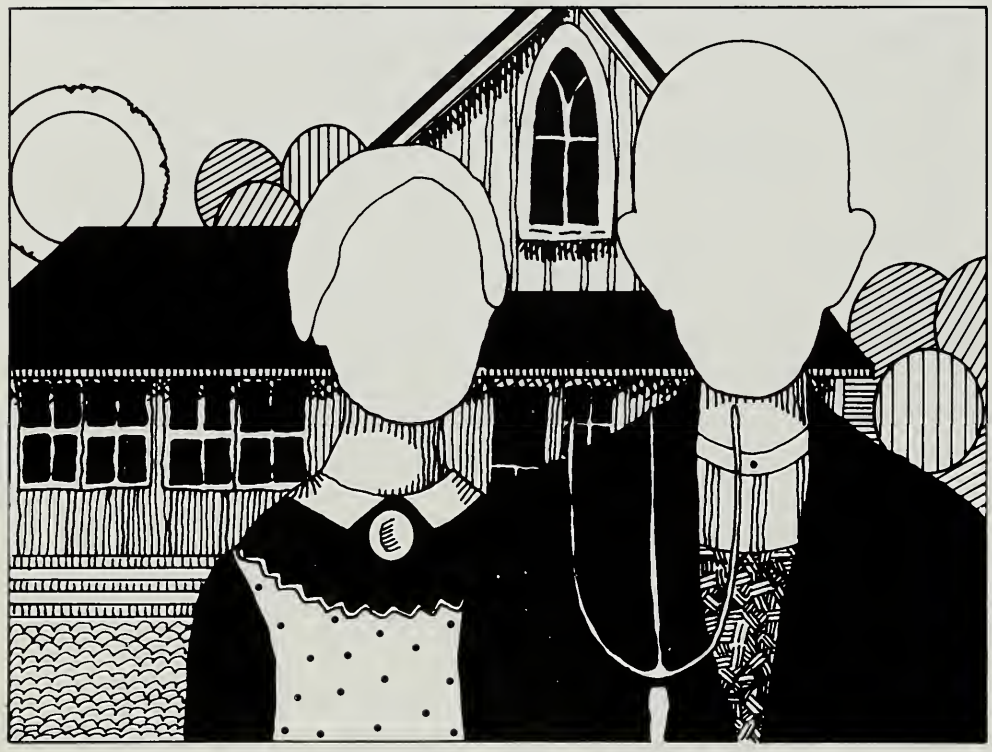
In March 1967, the average value per acre of U.S. farmland was $168. Total value of farm real estate was $182 billion.

Last February, the average acre was valued at $490—up from the 1977 average of $450—and total value of U.S. farm real estate stood at a majestic $527 billion. Gains such as those are strong incentives for investment.

Whether that investment should be controlled—and by whom—are decisions that may come after analysts and policymakers get their hands on basic information: Who are these investors; how much do they own; and who benefits from the rising land prices?

[Based on *Foreign Ownership of U.S. Real Estate in Perspective*, ESCS-24.]

The Small Farmer—Who Is He?



The Food and Agriculture Act of 1977 defines "small farmers" as those who market agricultural products worth less than $20,000 a year.

But what do they grow . . . Where do they grow it . . . How old are they . . . How much do they make on other jobs? In short, who is the small farmer?

According to the 1974 Census of Agriculture, our 1.5 million small farmers—or, two out of three—operate nearly 29 percent of our farmland, and they control about a third of all farm assets.

On the other hand, they accounted for just a tenth of the Nation's total farm sales in 1974, about $5,470 per farm.

Best of both worlds. Their secret of survival? They keep a hand in farming while rounding out their incomes from nonfarm jobs.

In fact, these farm families had an average income of over $15,000 in 1976, almost as much as all families in the U.S., and over three times the official poverty threshold for a farm family of four.

Contrary to popular notion, small farmers do not primarily raise berries, melons, vegetables, and tobacco. The 1974 Census of Agriculture shows that 4 out of 10 operated livestock farms, and 3 in 10 operated cash grain farms.

By farm type, tobacco, fruit and tree nut, and field crop operations, in that order, were most likely to be small. Least likely to be small were dairy, poultry, vegetable and melon, and horticultural operations.

Omnipresent. Every region has many small farms. Nearly four-fifths of the farms in the South are small farms. In the Northeast about 60 percent of the farms are small, and in the North Central States, more than half fit the small-farm definition.

In West Virginia, more than 90 percent of the farms fell in the small-farm category in the 1974 Census, even though that State claimed a mere 1 percent of the Nation's small farms.

Nationally, the South has almost half of all small-farm units. About 40 percent are located in the North Central region, and only 5 percent in the Northeast.

Age and education. The operators of small farms were older—median age of 53 in 1974—than those who ran larger units—median age of 50. Slightly over one in five of small-farm operators were at least 65. Small farmers also had less schooling than operators of the larger farms. Sixty-seven percent had not

As Time Permits...

In the last 5-6 years, a bunch of ag editors—mostly young tigers—have chucked their Smith-Coronas for John Deeres, or traded their pencils for pigs and returned to the land.

Here's another one. Steve Strickler returned to Kansas earlier this month to pursue a career in dairy farming, after a stint as associate editor with *Hoard's Dairyman.*

"As is every ag journalist's dream who returns to the farm, I hope to continue doing some freelance writing and photography—as time permits," Strickler writes. He admits that the "as time permits" may be few and far between on a dairy farm.

[From June issue of *The ByLine,* American Agricultural Editors' Association.]

finished high school, compared with 62 percent for all farmers.

To researchers and policymakers, the age difference suggests that many older small-farm operators need programs to help them prepare for retirement, to transfer their estates to heirs, or to become successful landlords. Younger operators, on the other hand, are probably more interested in programs to expand their present farms or obtain an off-farm job.

On the average, small farms netted only $760, according to the 1974 Census of Agriculture. And farms in some sales classes below $20,000 operated in the red.

Off-farm income. The lower the farm receipts, the more likely the operator had outside income. Those with sales of $5,000-$9,999 reported they derived four-fifths of their income from nonfarm sources.

In the $10,000-$19,999 sales class, the proportion was slightly over half. In every sales category, a sizable percentage reported off-farm income of more than $10,000.

Though only 4 percent of all small-farm operators belong to minority groups, nearly 90 percent of all minority farmers operate small units. Minority families were found to depend more on farm earnings, and thus are more likely to be poor.

As a rule, minority operators are older than other farmers, work fewer days off the farm, have smaller farms, and mainly produce crops.

[Based on "Small-Farm Profile," by Donald K. Larson, Economic Development Division, and James A. Lewis, Natural Resource Economics Division, paper presented at the ESCS Small-Farm Workshop, Washington, D.C., May 3-4, 1978; and other ESCS material.]

Two Schools of Thought

Since the 1950's, the Federal Government has favored small-farm programs that are aimed at the entire rural community of which the small-scale operator is a part—as opposed to measures specifically designed for him as a working farmer.

The goal has been to create an environment that will allow farmers and nonfarmers alike to carry on full lives in nonmetropolitan areas. Attention has focused on services, nonfarm job opportunities, and the special problems facing low-income citizens outside the cities. The stress, in other words, has been on rural development.

The postwar origins of this approach go back to a 1954 speech in which President Eisenhower noted the skewed distribution of price support program benefits and directed USDA Secretary Benson "to investigate the problems peculiar to small farms."

The Secretary responded with a report containing the seeds of the modern rural development effort. Since then, farmers have accounted for a steadily declining minority of the nonmetropolitan population, and today most of the funds available for rural development do not even come from USDA.

Nevertheless, some analysts are not sold on the notion that rural development alone is sufficient to deal with the problems facing small farmers. What distinguishes the small-scale operator from the rest of the rural population is his farm—a unique package of resources with economic potentials that need to be realized no matter how modest.

Thus, two schools of thought have emerged about the ideal approach to small-farm issues. One concentrates on the small farmer as a member of the rural community, the other on his role as a farm operator. The first school maintains that small farmers stand to benefit most from welfare and rural development programs. The second holds that basic changes are needed in agriculture itself.

Within ESCS, a consensus seems to be emerging in favor of a middle course. It springs from an awareness of the small farm population's great diversity: Some small-scale operators are old, some combine farm and nonfarm jobs, some depend entirely on farm income. Data deficiencies abound, but it appears that small farmers have different resources and aspirations, which suggest that a diverstiy of programs may be called for.

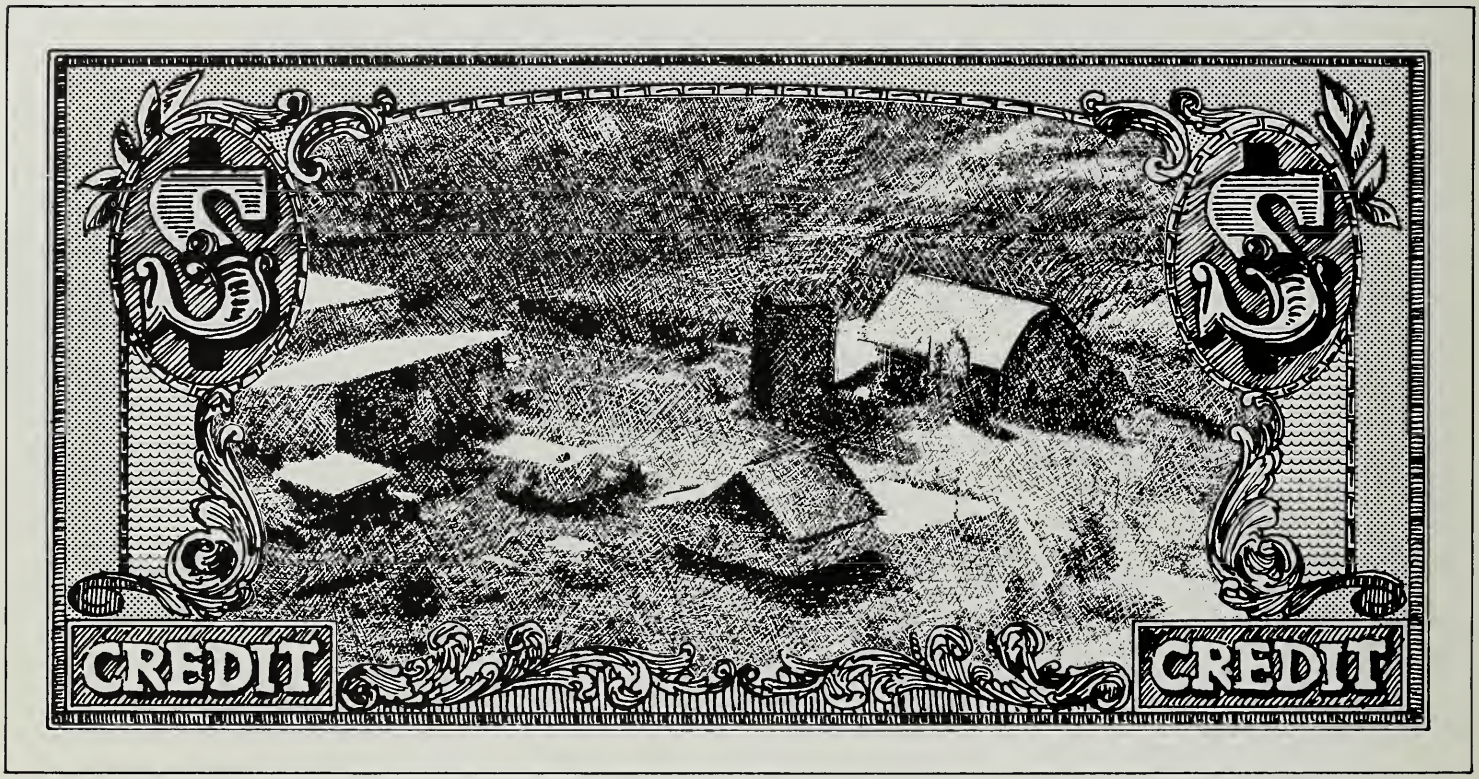
For producers whose operations show promise and who have no viable nonfarm options, the pressing need may be for technologies, marketing and management techniques, and credit facilities to boost farm income.

At the other end of the spectrum are operators whose well-being may depend almost exclusively on opportunities in the nonfarm sector.

In between are those who might best benefit from a combination of farm and nonfarm programs.

[Excerpts from *"Perspectives on the Small Farm,"* by David E. Brewster, National Economic Analysis Division, paper presented at the ESCS Small Farm Workshop, Washington, D.C., May 3-4, 1978.]

The Farm Credit Picture



Most farmers will be able to find loans this year, but marginal operators may still find a tight money market.

The marginal operators will probably have trouble qualifying for loans, and repaying outstanding debts. A small but significant number of borrowers—about twice the normal number—was not qualifying for loans from commercial sources in 12 States surveyed.

The 12 States are Colorado, Georgia, Indiana, Iowa, Kansas, Minnesota, Montana, Nebraska, North Dakota, Oklahoma, South Dakota, and Texas. A survey sampled 883 of the 5,328 commercial banks in those States, and all 171 of the Production Credit Associations (PCA's).

The banks reported that they had 714,000 nonreal estate loan borrowers; PCA's had about 90,000, and some borrowers had money from both institutions.

Not everyone qualifies. The snags in applying for loans are the result of hard-hitting income cuts and cash flow problems in 1977. In most years about 1 percent of the bank borrowers from the previous year wouldn't qualify for a current loan. But this year, that number is up to 3 percent—22,000 of the 1977 borrowers would not qualify for a loan in 1978.

PCA's said about 4 percent of last year's borrowers would not qualify this year; that's twice the normal level.

Also, the number of borrowers in the 12 States who are in debt up to their maximum limit is double what it is in most years.

Banks and PCA's turned down loan applications last winter at a higher rate than normal. Between January 1 and March 15, about 6 percent, or 14,700 people, were refused loans. The normal rate that time of year is 4 percent.

Businesses lacking vigor. The reasons for the turndowns revolve mostly around whether a borrower is financially vigorous. About 60 percent of the bankers said that those who didn't qualify were poor managers; 73 percent said inadequate equity was a problem; and nearly two-thirds cited thin income prospects.

The emphasis skips a bit from region to region. In Montana, nearly all of the bankers believed that borrowers denied loans had income problems.

The picture's a bit different for PCA's. More than 80 percent of them reported

inadequate income and said the would-be borrowers were light on equity. In three States, Kansas, Minnesota, and Montana, all the PCA's reported slim income as a primary factor in the loan rejection.

Hauling in the slack. The Farmers Home Administration (FmHA) and the Small Business Administration (SBA) are picking up much of the slack.

It's likely that many of the farmers refused by the banks and PCA's turned to the Federal agencies for money. In the 12 States, FmHA nonreal estate debt outstanding leaped 87 percent in 1977, and 4 percent of all farmers (40,810) had loans through the FmHA or the SBA emergency loan programs.

The Federal help with loans has taken some of the pressure off farmers. They've also been helped by Commodity Credit Corporation loans and deficiency payments. These aids, along with FmHA emergency loans, increased deposits at commercial banks. They've also boosted loan repayments at banks and PCA's since late 1977.

Also, farm commodity prices have been rising all year; farm income this year now figures to be up $4-$5 billion from last year; and in late spring the Government raised wheat and cotton target prices and dairy price supports. So the situation this summer is considerably better for farmers than it was when the survey was taken.

Paying it back. Those repayments have been especially thorny for some farmers. To avoid defaulting, many of them have refinanced debts to a longer term to trim annual payments. In 1976, about 2 percent of the short-term bank loans were refinanced and converted to real estate debt.

But in 1977, banks reported about 7 percent of their nonreal estate loans were converted. That's a jump from a more normal 18,000 in 1976 to 50,000 in 1977.

PCA's also reported a high refinancing rate. While in most years it's 3 percent, after the tough sledding of 1977 it was up to 9 percent.

Bank managers note that although the amount of nonreal estate loans increased 10 percent, bank deposits grew 13 percent.

Fast-growing bank activity. In Minnesota, Indiana, and Iowa, farm loans and total loans grew faster than deposits, and in Oklahoma and Texas the growth rates were about the same. But in the rest of the States surveyed, deposits outpaced loans.

The bankers were generally optimistic regarding their farm loan portfolios. Nearly 75 percent said their portfolios were as good as last year, or better.

And, 85 percent of all bankers said their farm loan portfolios are in better shape than their nonfarm portfolios.

PCA's weren't as cheery. Nearly half of them said their farm loan portfolios deteriorated in the past year. On the other hand, PCA loan activity slipped in three States—Colorado, Nebraska, and Texas—while holding steady in Montana and North Dakota.

[Based on *Farm Credit Survey, 1978,* and on special material from Robert Reinsel, National Economic Analysis Division.]

Capital Gains and Real Estate

Investors in farm real estate could be in for a rude awakening when they sell if they haven't taken capital gains taxes fully into account.

Despite heavier-than-normal farm loan-to-debt ratios, and a downturn in the rate of increase of farmland values, many investors are buying farmland, hoping for a big return. But capital gains taxes can hack a large chunk out of potential profits.

An ESCS economist offers this scenario: A Chicagoan bought 500 acres of Illinois cropland in 1957. When the land was resold 21 years later, before-tax return on investment was 394 percent—counting a $21,500 deduction for capital improvements.

But this investor is single, has no other income in 1978, and does not income average. Up pops the capital gains page on the income tax forms. The capital gains tax in this case equals 26 percent of the sale price, and the rate of return plummets to 267 percent—a healthy profit, no doubt, but a lot less than the amount usually publicized.

If that same investor is married and files jointly, capital gains taxes slip a bit, to 24 percent of the sale price, and after-tax return is 274 percent.

[Based on "Farm Finance and Real Estate Report: March 13, 1978," a paper presented by Larry A. Walker, National Economic Analysis Division, to the National Agricultural Credit Committee, meeting in Washington, D.C., March 13, 1978.]

Recent Publications

Single copies of the publications listed here are available free from *Farm Index*, Economics, Statistics, and Cooperatives Service, Rm. 300-GHI, 500 12th St. S.W., U.S. Dept. of Agriculture, Washington, D.C. 20250. However, publications indicated by (*) may be obtained only by writing to the experiment station or university indicated. For addresses, see July and December issues of *Farm Index*. Publications marked with (#) may be purchased from NTIS, U.S. Dept. of Commerce, 5285 Port Royal Rd., Springfield, Va. 22161, at the price listed.

Western Europe Agricultural Situation, Review of 1977 and Outlook for 1978. Developed Countries Program Area, Foreign Demand and Competition Division. Supplement 4 to WAS-15.

After the drought-induced poor production in 1976, Western Europe's agricultural output jumped 5 percent last year—grain production was up nearly 10 percent, and feed grains leaped a fifth. U.S. exports to the area climbed to a record $8.4 billion last year, but will probably slip substantially this year.

Costs of Producing Hogs in the United States—1976. Prepared by the Commodity Economics Division for the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate. Cite title of report when ordering from the Senate Committee on Agriculture, Nutrition, and Forestry, U.S. Capitol, Washington, D.C. 20510.

This report was prepared for the committee, although it was not specifically required by the Agriculture and Consumer Protection Act of 1973—the farm law that preceded the present one—and it shows that the costs of producing hogs in 1976 outpaced receipts by an average $6.92 per hundredweight. Other details of hog production costs are given.

A Data-Pooling Approach to Estimate Employment Multipliers for Small Regional Economies. Jeff V. Conopask, Economic Development Division. Tech. Bul.-1583.

In recent years, the importance of rural development and industry, such as coal mining in the Northern Great Plains, has gained in importance. This study takes a look at methods for measuring the economic changes, and provides an improved technique using regression analysis.

Factors Affecting Coyote Predation of Sheep and Lambs: A Statistical Analysis. Louise M. Arthur, Natural Resource Economics Division. PB 280 658 (#).

A statistical analysis of the relationships among coyote abundance data, lamb losses, ranch management practices, and predator control efforts are presented in this paper. ($4.50)

Indices of Agricultural Production for Asia and Oceania, Average 1961-65 and Annual 1968-77. Asia Area, Foreign Demand and Competition Division. Stat. Bul.-606.

Covered in this periodical report on the area are crop production—although the total food supply goes beyond these figures—and commodity prices, along with other pertinent information.

People's Republic of China Agricultural Situation, Review of 1977 and Outlook for 1978. Centrally Planned Countries Program Area, Foreign Demand and Competition Division. Supplement 6 to WAS-15.

Even though crop production in the PRC this year may surpass last year, U.S. exports to China are likely to increase. Agricultural exports last year were nearly $66 million, but grain shipments were down. They will probably pick up this year. Detailed explanations of China's production, export, and import plans are presented.

Costs of Producing Milk in the United States—Final 1976, Estimated 1977, and Projections for 1978. Prepared by the Commodity Economics Division for the Committee on Agriculture, Nutrition, and Forestry, U.S. Senate. Cite title of report when ordering from the Senate Committee on Agriculture, Nutrition, and Forestry, U.S. Capitol, Washington, D.C. 20510.

This third annual report notes that production costs per hundredweight of milk in the U.S. declined last year, and will probably slip some more in 1978. Costs figured on a per-cow basis have hardly changed in the 3 years.

Asia Agricultural Situation, Review of 1977 and Outlook for 1978. Developing Countries Program Area, Foreign Demand and Competition Division. Supplement 2 to WAS-15.

The authors report that agricultural production in Asia and Oceania spurted 4 percent last year. U.S. agricultural exports to the region jumped 3.4 percent, to $7.1 billion, and they might reach $8 billion this year. Agricultural imports, meanwhile, rose 15 percent in 1977, to $3.1 billion.

Alternative Pricing Policies for Class 1 Milk Under Federal Marketing Orders—Their Economic Impact. Richard F. Fallert and Boyd M. Buxton, Commodity Economics Division. AER-401.

Government regulations in the dairy industry have been of growing concern the past few years. This study delves into Federal and State marketing orders that establish and enforce classified pricing, where milk is priced according to its final utilization. The alternative pricing policies are analyzed, along with the option of eliminating pricing and pooling under milk marketing orders.

Economic Trends

[1] Ratio of index of prices received by farmers to index of prices paid, interest, taxes, and farm wage rates. [2] Average annual quantities of farm food products purchased by urban wage earner and clericalworker households (including those of single workers living alone) in 1959-61—estimated monthly. [3] Annual and quarterly data are on 50-State basis. [4] Annual rates seasonally adjusted first quarter. [5] Seasonally adjusted. [6] As of March 1, 1967. [7] As of February 1.

Source: U.S. Dept. of Agriculture (Agricultural Prices, Foreign Agricultural Trade, and Farm Real Estate Market Developments); U.S. Dept. of Commerce (Current Industrial Reports, Business News Reports, Monthly Retail Trade Report, and Survey of Current Business); and U.S. Dept. of Labor (The Labor Force and Producer and Consumer Price Indexes).

Item	Unit or Base Period	1967	1977 Year	1977 May	1978 March	1978 April	1978 May
Prices:							
Prices received by farmers	1967=100	—	183	192	200	208	215
Crops	1967=100	—	192	211	198	208	212
Livestock and products	1967=100	—	175	177	204	209	217
Prices paid, interest, taxes, and wage rates	1967=100	—	202	204	214	216	219
Prices paid (living and production)	1967=100	—	196	199	206	209	212
Production items	1967=100	—	200	205	211	214	217
Ratio [1]	1967=100	—	90	94	93	96	98
Producer prices, all commodities	1967=100	—	194.2	195.2	203.8	206.4	207.9
Industrial commodities	1967=100	—	195.1	194.2	204.1	206.0	207.3
Farm products	1967=100	—	192.5	204.3	205.3	213.6	215.7
Processed foods and feeds	1967=100	—	186.1	191.9	196.8	200.2	205.5
Consumer price index, all items, unrevised	1967=100	—	181.5	180.6	189.8	191.3	193.2
Food, unrevised	1967=100	—	192.2	191.7	203.6	205.6	209.3
Farm Food Market Basket: [2]							
Retail cost	1967=100	—	179.2	178.0	190.7	193.3	198.2
Farm value	1967=100	—	178.8	179.2	199.6	207.6	212.1
Farm-retail spread	1967=100	—	179.5	177.3	185.1	184.2	189.4
Farmers' share of retail cost	Percent	—	39	39	41	42	41
Farm Income: [3]							
Volume of farm marketings	1967=100	—	125	97	97	96	102
Cash receipts from farm marketings	Million dollars	42,817	96,084	6,372	7,236	7,079	8,000
Crops	Million dollars	18,434	48,519	2,501	2,640	2,429	3,100
Livestock and products	Million dollars	24,383	47,565	3,871	4,596	4,650	4,900
Realized gross income [4]	Billion dollars	49.9	108.1	—	115.8	—	—
Farm production expenses [4]	Billion dollars	38.2	88.0	—	93.5	—	—
Realized net income [4]	Billion dollars	11.7	20.1	—	22.3	—	—
Agricultural Trade:							
Agricultural exports	Million dollars	6,380	23,671	2,199	2,519	2,508	2,729
Agricultural imports	Million dollars	4,452	13,459	1,257	1,394	1,309	1,277
Land Values:							
Average value per acre	Dollars	[6] 168	[7] 450	—	[7]490	—	—
Total value of farm real estate	Billion dollars	[6] 189	[7] 482	—	[7] 524	—	—
Gross National Product: [4]	Billion dollars	796.3	1,889.6	—	1,995.3	—	—
Consumption	Billion dollars	490.4	1,211.2	—	1,282.4	—	—
Investment	Billion dollars	120.8	294.2	—	320.0	—	—
Government expenditures	Billion dollars	180.2	395.0	—	416.6	—	—
Net exports	Billion dollars	4.9	-10.9	—	-23.7	—	—
Income and Spending: [5]							
Personal income, annual rate	Billion dollars	626.6	1,536.7	1,517.3	1,656.6	1,677.9	1,693.3
Total retail sales, monthly rate	Billion dollars	24.4	58.9	58.0	62.7	63.9	63.8
Retail sales of food group, monthly rate	Billion dollars	5.8	13.0	13.1	13.9	14.2	14.2
Employment and Wages: [5]							
Total civilian employment	Millions	74.4	90.5	90.3	93.3	93.8	94.1
Agricultural	Millions	3.8	3.2	3.3	3.3	3.3	3.2
Rate of unemployment	Percent	3.8	7.0	7.1	6.2	6.0	6.1
Workweek in manufacturing	Hours	40.6	40.3	40.4	40.6	40.6	40.6
Hourly earnings in manufacturing, unadjusted	Dollars	2.83	5.63	5.56	5.96	5.99	6.02
Industrial Production: [5]	1967=100	—	137.1	137.0	140.9	142.9	143.7
Manufacturers' Shipments and Inventories: [5]							
Total shipments, monthly rate	Million dollars	46,487	111,256	109,641	121,273	124,751	124,080
Total inventories, book value end of month	Million dollars	84,527	179,714	175,716	183,860	185,715	187,486
Total new orders, monthly rate	Million dollars	47,062	112,842	111,102	125,973	128,389	129,261

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